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ABSTRACT

This document begins by presenting a general summary of Iowa's current school finance law, which dates back to steps taken in 1967 by the 62nd General Assembly, and by providing a current state aid chronology, organized by year, general assembly number, session, bill, and major features. Subsequent sections provide descriptions of the following: (1) the Iowa foundation aid program; (2) school budgets; (3) the school budget review committee; (4) the area education agency; (5) sources of revenues; and (6) the general and schoolhouse fund. Four tables include the following information: (1) state cost, foundation level, and expenditures; (2) budget enrollment from 1971-72 to 1986-87; (3) the allowable growth rate from 1974-75 to 1986-87; and (4) sources, in millions, of the school dollar. (IW)

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# PUBLIC SCHOOL FINANCE IN IOWA

By
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Planning, Research and Development Bureau

EA 018 927

September 1986

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## Iowa School Finance History

Iowa's current school finance law dates back to the mid 1960's when the 62nd General Assembly took steps to provide for general property tax replacements, equalization of the method of taxation of property for school purposes and allocation of state funds for aid to schools. They also provided for agricultural land tax credits, personal property tax credits and additional homestead credit for the aged. The 62nd General Assembly in 1967 created county tax units for equalizing the education tax burden of districts within the county by spreading 40 percent of each district's property tax asking across all districts within the county. Also, 40 percent of the income tax dollars paid by county residents was distributed on an equal per pupil basis across all pupils in the county. The 62nd General Assembly also created a school budget review committee to consider unique and unusual school budget circumstances.

Between 1970 and 1972 the General Assembly modified the 1967 law to achieve the present type of foundation plan. The basic features included a uniform levy requirement, establishing a state foundation base, establishing a maximum growth on each budget, providing for a leveling up of low spending districts, providing for a minimum state aid and budgeting on the basis of the number of students enrolled.

### SUMMARY OF LEGISLATION

Understanding the school finance law of today requires a knowledge of the current history of school finance in Iowa. Although changes have been made frequently by the Iowa Legislature, some basic features of the law have remained intact. All public school districts' budgets were frozen for the 1971-72 school year at the 1970-71 level plus $45 per pupil. The state cost per pupil was set at $920 for 1972-73 (later adjusted to $903). The state cost was defined for succeeding years as the previous year's state cost plus allowable growth. The allowable growth is a dollar amount per pupil determined by multiplying the state cost by the percent change in state revenues and in the consumer price index or more recently the gross national product implicit deflator. A state foundation base was established at 70 percent of the state cost per pupil in 1972-73. This base was to increase 1 percent per year up to a foundation base of 80 percent (Table 1). However, the foundation base was frozen at the 1979-80 base of 77 percent for the 1980-81, 1981-82, and 1982-83 budgets.

The General Assembly established controlled budgets by statutorially setting budget growth and establishing budgets based upon local district cost per pupil multiplied by the current number of pupils. The budget growth was determined by state cost per pupil times the average percent change of state revenues and the consumer price index. The 1980-81 budget growth was based upon the percent change in the consumer price index. The 1981-82 growth was to be based upon the percent change in state revenues and the gross national product implicit deflator unless the change in revenue was less. If the change was less, then the revenue growth rate was to be used. However, for the school years 1981-82 and 1982-83, the percent growth was set by the General Assembly at five percent and seven percent respectively.

The allowable growth rate for 1986-87 was calculated to be 3.843%. The allowable growth amount was $97 per budget pupil.

In addition to the legislative changes which are described on the following pages, the Governor by executive order reduced the general fund appropriations (state aid) during the 1980-81 school year by 4.6 percent and 2.8 percent in 1983-84, and 3.85 percent in 1985-86. These reductions did not reduce authorized budgets but resulted in a reduction of state aid receipts.

Table 1
State Cost, Foundation Level and Expenditures

| Year | State Cost Regular Pupil | AEA Support Cost | Total Cost | Foundation Support Level | Foundation Support Percent |
|---|---|---|---|---|---|
| 1971-72 | — | — | — | — | — |
| 1972-73 | 903 | — | 903 | 632 | 70 |
| 1973-74 | 948 | — | 948 | 673 | 71 |
| 1974-75 | 1,024 | — | 1,024 | 737 | 72 |
| 1975-76 | 1,134 | 40 | 1,174 | 857 | 73 |
| 1976-77 | 1,245 | 48 | 1,293 | 957 | 74 |
| 1977-78 | 1,343 | 55 | 1,398 | 1,049 | 75 |
| 1978-79 | 1,470 | 55 | 1,525 | 1,157 | 76 |
| 1979-80 | 1,609 | 74 | 1,683 | 1,296 | 77 |
| 1980-81 | 1,848 | 88 | 1,934 | 1,489 | 77 |
| 1981-82 | 1,940 | 88 | 2,028 | 1,562 | 77 |
| 1982-83 | 2,089 | 94 | 2,183 | 1,681 | 77 |
| 1983-84 | 2,224 | 100 | 2,324 | 1,813 | 78 |
| 1984-85 | 2,288 | 103 | 2,391 | 1,889 | 79 |
| 1985-86 | 2,410 | 108 | 2,518 | 2,014 | 80 |
| 1986-87 | 2,503 | 112 | 2,615 | 2,092 | 80 |

CURRENT STATE AID CHRONOLOGY

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| 1967 | 62nd | Regular | HF686 | 1. Established 99 basic school tax units.<br>2. Forty percent of school property tax raised uniformly across basic school tax unit.<br>3. Forty percent of income taxes paid within a school taxing unit paid back to individual districts on an equal per pupil basis.<br>4. State allocations were based upon actual expenditures adjusted by a financial support factor.<br>5. A school budget review committee was established. |
| 1970 | 63rd | 2nd | SF640 | 1. Established the budget certification date as February 15.<br>2. Redefined allowable reimbursable expenditures.<br>3. Distribution of money based upon fall enrollment.<br>4. Redefined state allocation procedures and financial support factor. |
| 1971 | 64th | 1st | HF121 | 1. Froze 1971-72 expenditures at 1970-71 levels plus $45 per pupil using 1971 fall enrollments. |
| | | | HF654 | 1. Created Chapter 442, Code of Iowa. Basic provisions were:<br>a. required each district to levy a 20 mill foundation property tax.<br>b. established a state foundation base at 70 percent of the state cost per pupil, increasing 1 percent annually to 80 percent.<br>c. established each district's foundation base.<br>d. established a state foundation aid base equal to the difference between the amount the uniform levy would raise plus miscellaneous income and the state foundation base.<br>e. established a $200 per pupil minimum aid except the tax rate could not be less than 90 percent of the 1970-71 tax rate. |

CURRENT STATE AID CHRONOLOGY (CONT.)

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| | | | | f. enrollment was based on the second Friday in September.<br>g. the state cost was set at $920 for 1971-72.<br>h. maximum tax rates could not exceed 1970-71 rates.<br>i. established an income surtax to allow districts to increase maximum budget via elections. |
| 1972 | 64th | 2nd | HF1269 | 1. Redefined Chapter 442 but no concept changes. |
| 1973 | 65th | 1st | HF359 | 1. Established two alternate dates, September or January, for determining enrollment.<br>2. Removed miscellaneous income from the formula and established the 1972-73 state cost at $903.<br>3. Limited the 1973-74 state percent of growth to a maximum of 5 percent.<br>4. Provided greater equalization by increasing the district cost of districts below the state cost through 125 percent growth.<br>5. Clarified Chapter 442 through technical and procedural changes. |
| 1974 | 65th | 2nd | HF1121 | 1. Established a declining enrollment provision.<br>2. Repealed the maximum tax reduction.<br>3. Established the state percent of growth at 8 percent for 1974-75 and 1975-76. |
| | | | HF1163 | 1. Established area education agencies designed to provide special education support services, media services, and other education services.<br>2. Established weighted pupil counts for special education children. |
| 1975 | 66th | 1st | HF558 | 1. Removed driver education as a categorical aid.<br>2. Redefined the declining enrollment provision.<br>3. Established the state percent of growth at 10.7 percent for 1975-76 school year. |

CURRENT STATE AID CHRONOLOGY (CONT.)

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| | | | | 4. Set the state percent of growth based upon changes in the Consumer Price Index and the state's revenues.<br>5. Expanded the enrichment levy to be funded by property taxes and an income surtax.<br>6. Provided for advanced state aid to increasing enrollment districts. |
| 1977 | 67th | Extra | SF415 | 1. Repealed maximum tax limitation.<br>2. Repealed guaranteed state aid provision. |
| 1979 | 68th | 1st | HF660 | 1. Redefined the declining enrollment provision beginning with the 1980-81 budget year.<br>2. Established the allowable growth to be based upon changes in the Consumer Price Index for the 1980-81 through 1982-83 budget years.<br>3. Adjusted the state cost by adding $20, $6, $7 and $8 per pupil for the budget years beginning July 1, 1980, 1981, 1982 and 1983 respectively.<br>4. Added a weighting plan for children taught by a jointly employed teacher and/or attending classes in another district.<br>5. Repealed the restrictions on the use of the enrichment amount. |
| 1980 | 68th | 2nd | HF2551 | 1. Redefined allowable growth calculation to be based upon change in state revenues and gross national product implicit deflator. However, if revenues are less than deflator, changes will be based upon revenues only.<br>2. Froze the state foundation base for one year. 1980-81 will be the same as 1979-80.<br>3. Removed School Budget Review decisions in determining if a district is eligible for 110% allowable growth. Retroactive to 1977-78 school year.<br>4. Permits the School Budget Review Committee to grant additional budget growth for gifted and talented programs. |

CURRENT STATE AID CHRONOLOGY (CONT.)

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| | | | | 5. Removed the $6 per pupil adjustment to state cost scheduled for 1981-82 budget year.<br>6. Changed area education agencies special education support services from budget to a per pupil basis with allowable growth added on a per pupil basis. |
| 1981 | 69th | 1st | HF414 | 1. Permitted districts to levy for a cash reserve not to exceed 7.5 percent of total expenditures.<br>2. Froze the foundation base for the 1981-82, 1982-83 school years at the 1979-80 level.<br>3. Established 1982-83 budgets at a minimum of 100 percent of 1981-82 budgets.<br>4. Established allowable growth for the 1981-82 and 1982-83 years at five and seven percent.<br>5. Froze the AEA special education support costs per pupil and the educational services budget at the 1980-81 level for the 1981-82 year.<br>6. Established educational services and media service budget growth as a per pupil amount based upon the state allowable growth rate and established the respective budgets as an amount per pupil times the enrollment in an AEA.<br>7. Provided for a supplement school income surtax not to exceed $75 per pupil on the budget enrollment. Surtax required voter approval. |
| 1982 | 69th | 2nd | SF2088 | 1. Removed the 7.5 percent ceiling on the levy for cash reserve.<br>2. Provided for a review of the cash reserve levy by the School Budget Review Committee. |
| | | | SF2146 | 1. Adjusted the state cost per pupil by adding an additional $6 to the already scheduled increases for the 1982-83 budget year. |
| | | | SF2302 | 1. Established that 1983-84 budgets will be at least one hundred percent of 1982-83 budgets. |

CURRENT STATE AID CHRONOLOGY (CONT.)

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| 1983 | 70th | 1st | HF562 | 1. Established the state foundation base for 1984-85 budgets at 80% of the state cost if the State Comptroller's January 1984 estimate of the state's general fund balance on June 30, 1985, is $30,000,000 or more. Otherwise the percent will be 79%.<br>2. Established a 102% budget guarantee beginning with the 1984-85 budget.<br>3. Adjusted the state cost per pupil by adding an additional $8 for the 1984-85 school year.<br>4. Set the allowable growth for the 1984-85 school year at 6.2 percent if the State Comptroller's January 1984 estimate of the state's general fund balance is $30,000,000 or more on June 30, 1985.<br>5. Permits the School Budget Review Committee to grant additional budget growth for returning dropout programs.<br>6. Include in the supplementary plan resident pupils attending classes at a merged area school.<br>7. Eliminated the 110% "catch-up" provision for those districts below the state cost per pupil for the 1984-85 year. |
| 1984 | 70th | 2nd | SF2361 | 1. Permits the School Budget Review Committee the authority to grant additional budget growth for educational improvement projects as approved by the Department of Public Instruction. |
| 1985 | 71st | 1st | HF210 | 1. Provides an additional 0.5 weighting for students taught by a jointly employed teacher and/or attending classes in another district or merged area school if the SBRC determines that the sharing would not be implemented without the additional weighting.<br><br>In lieu of the .5 weighting, the SBRC shall assign an additional weighting of .1 per pupil in districts that have a substantial number of students in any of grades seven through twelve sharing more than one class or teacher. |

CURRENT STATE AID CHRONOLOGY (CONT.)

| Year | General Assembly | Session | Bill | Major Feature |
|---|---|---|---|---|
| | | | HF682 | 1. Provides for a recalculation of budget enrollments for districts whose basic enrollment in the budget year is fifteen percent higher than the basic enrollment in the base year. |
| 1986 | 71st | 2nd | HF2484 | 1. Established the state foundation level at 81.5% in 1987-88 and provided for a 0.5% increase in the level for succeeding years up to 85%. |
| | | | HF2462 | 1. Provided for a reduction in the foundation levy to $4.40 for a school district which reorganizes and has an enrollment under 600. The levy will increase 20 cents per year up to $5.40.<br>2. Provided for a maximum property tax rate for additional property taxes and bonded indebtedness not to exceed current levels for any district reorganizing and whose enrollment is under 600.<br>3. Provided for a continuance of the supplementary enrollment weighting at the current weight after a school district reorganizes for those districts under 600 enrollment.<br>4. Provided a supplementary weighting of .05 per pupil times the percent of time an administrator is shared by two or more districts. The maximum supplemental weight for this provision is 15. Principals can not be included.<br>5. Placed a limitation of five years on a district's eligibility to receive a supplementary weighting .1 per pupil in districts that have a substantial number of students in any of grades seven through twelve sharing more than one class or teacher. |

## THE IOWA FOUNDATION AID PROGRAM

Iowa's school foundation aid program for financing public elementary and secondary education is very straightforward in concept. All children are guaranteed a basic financial support level by having all districts tax themselves at $5.40/$1,000 valuation and the state providing aid up to the basic support level. For each district the total foundation level equals the state foundation support level times the district's total weighted enrollment.

The state supports the foundation program at a percentage of the state cost. For the 1986-87 budget year, the support level is 80 percent of the state cost. For 1987-88 the percent will be 81.5 percent. This percent will increase .5 percent per year until the foundation level is 85 percent.

The foundation aid program can be depicted as follows:

Foundation Support - Local Effort = State Aid

or

(State Cost x Percent of Support) - Uniform Levy = State Aid

or for 1986-87

($2,503 x 80%) - ($5.40/$1,000 x Assessed Valuation) = State Aid

### State Cost

The use of the term cost has caused much confusion when state cost is used. For the 1971-72 school year, a state average cost was determined by dividing budgets, less miscellaneous income, by the total number of pupils. In that year, the state cost was averaged; however, since that year, an allowable growth amount has been added each year establishing a new state cost figure used for support level purposes. The 1985-86 regular program state cost figure was $2,410 and is $2,503 for 1986-87. The state cost amount has two purposes: 1) to determine the dollar amount of allowable growth, and 2) to determine the foundation support level.

For the budget year 1984-85, the state cost was the previous year's state cost plus allowable growth plus $8. The additional $8 was an adjustment to the state cost to bring the state cost closer to the state average cost. No adjustment other than the allowable growth was made for the 1985-86 or 1986-87 state cost.

### Minimum Aid

Some school districts have wealth bases such that the uniform levy of $5.40/$1,000 generates more money than the state support level. For these districts, a guaranteed minimum aid provision was established granting them $200 minimum aid per pupil, except that the $200 minimum aid shall not result in an increase in the controlled budget or a levy less than $5.40/$1,000 assessed valuation.

SCHOOL BUDGETS

The maximum generated fund budget for a school district consists of four parts: controlled portion, enrichment portion, miscellaneous income and balance carried forward.

The controlled budget is as follows:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| District Cost Per Pupil | + | Allowable Growth | + | AEA Sp. Ed. Support Services | | X | Formula Enrollment | | | |
| + | AEA Media Cost Per Pupil | + | AEA Other Services Per Pupil | X | District Headcount Enrollment | + | Resident Nonpublic Pupils | = | Controlled Budget | |

Enrollments

The number of students in a district basically determines the district's budget. Pupils multiplied by local district cost per pupil establishes the controlled budget, and it is the controlled budget which is supported in part by the state aid.

The pupils count used for budget purposes if AEA costs are excluded has four parts: actual certified pupils, a compensation for declining enrollment, supplementary weighting, and a special education weighting. If the AEA costs are included, then nonpublic students are included to determine media and educational services costs.

Prior to the 1979-80 budget year, compensation for declining enrollment was determined by calculating the difference between current enrollments and enrollments one year previous. If a district was declining, then 50 percent of the enrollment loss up to 5 percent of the base year enrollment was forgiven or added to the actual enrollment. For any loss over 5 percent, 25 percent of the loss was forgiven. For the 1979-80 budget year, 2.5 percent of the base year enrollment was completely forgiven and any loss over this was forgiven at the 50 percent level. Starting with the 1980-81 budget year, school districts calculated their budget enrollments as follows:

> 25% x September 1978 enrollments + 75% x larger of current September or previous September enrollments

For example for 1983-84:

> .25 x September 1978 enrollments + .75 x (September 81 or September 82)

and 1984-85 budgets will be:

> .25 x September 1978 + .75 (September 81 or September 82)

Beginning with the 1984-85 budget year, a school district may use the current September enrollment if it is greater than the budget enrollment as calculated above.

If a district's enrollment is increasing, then the actual enrollment in the year the budget is implemented will be used. Budget enrollments also were adjusted if the budget for 1980-81 was not at least 4 percent larger than the 1979-80 budget. Then the budget enrollment was adjusted to assure a 4 percent growth. In 1981-82, a 3 percent growth was assured and in 1982-83 the previous year's budget was assured. In 1984-85 and for subsequent years, the minimum budget growth will be 2 percent.

The special education weighting depends upon the needs of the student and the type of program to which the student is assigned. Special education students who remain in a regular program but who receive some instruction in special education classrooms are weighted 1.7. Students receiving instruction in a special education self-contained classroom who receive little or no integration into a regular class are weighted 2.2. Pupils requiring special education who are severely handicapped or who have multiple handicaps or who are chronically disruptive are weighted 3.6.

The supplementary weighting plan is a .1 weighting times the percent of time a student is in a shared time program. Pupils attending classes in another school district, attending classes taught by a teacher jointly employed, or attending classes taught by a teacher who is employed by another school district, are all eligible for shared time weighting. In 1985 the General Assembly increased the weighting to .5 if the School Budget Review Committee determines that sharing would not be implemented without the additional weighting.

In 1986 the General Assembly placed a five year limitation on the number of years a school district can receive this supplemental weight.

Historical enrollments used for budget purposes, which include certified budget enrollments, formula enrollments, declining enrollment weightings, special education weightings, nonpublic enrollments and AEA service enrollments, are presented in Table 2.

Table 2
Budget Enrollment 1971-72 through 1986-87

| Budget Year | Certif. Enroll. of Prior Sept. | Weighted Enrollmt | Declin. Enroll. Weightg. | Supplm. Weightg. | Special Educ. Weightg. | Non-Pub. Enroll. | AEA Serv. Enroll |
|---|---|---|---|---|---|---|---|
| 1971-72 | 652,518 | 652,518 | — | — | — | — | — |
| 1972-73 | 646,949 | 646,949 | — | — | — | — | — |
| 1973-74 | 630,722 | 643,391 | 12,669 | — | — | — | — |
| 1974-75 | 619,856 | 637,479 | 17,623 | — | — | — | — |
| 1975-76 | 616,633 | 654,362 | 10,064 | — | 27,665 | — | — |
| 1976-77 | 610,087 | 648,977 | 5,237 | — | 33,699 | 58,245 | 668,335 |
| 1977-78 | 601,591 | 641,216 | 5,932 | — | 32,125 | 56,507 | 658,098 |
| 1978-79 | 586,029 | 627,324 | 8,354 | — | 32,921 | 55,857 | 641,892 |
| 1979-80 | 571,049 | 619,793 | 16,014 | — | 32,730 | 53,345 | 624,394 |
| 1980-81 | 551,330 | 605,485 | 20,091 | — | 34,012 | 51,307 | 602,647 |
| 1981-82 | 536,979 | 600,017 | 25,647 | 91.2 | 37,300 | 50,538 | 588,153 |
| 1982-83 | 520,250 | 582,150 | 26,330 | 87.6 | 35,570 | 50,324 | 570,574 |
| 1983-84 | 506,796 | 569,081 | 26,930 | 90.7 | 35,264 | 49,111 | 555,907 |
| 1984-85 | 498,742 | 568,152 | 33,247 | 148.6 | 36,014 | 49,242 | 547,984 |
| 1985-86 | 492,007 | 558,672 | 29,269 | 172.1 | 37,224 | 49,880 | 541,887 |
| 1986-87 | 486,725 | 555,167 | 30,426 | 686.8 | 37,329 | 47,306 | 534,031 |

**District Cost Per Pupil**

Local district costs per pupil were established in 1971-72 and are used to establish the controlled budget. The terms local district cost per pupil, district cost per pupil and controlled budget per pupil can be used interchangeably. The local cost figures have been modified annually by the allowable growth calculated using the state cost. For some districts additional allowable growth has been granted by the School Budget Review Committee. All districts annually increase their per pupil cost amount by the state per pupil allowable growth. However, if a district is below the state cost per pupil, then it may increase its cost per pupil up to the state cost so long as the allowable growth does not exceed 125 percent (1979-80). As of 1980-81, the 125 percent figure was reduced to 110 percent. For the 1984-85 school year the leveling up provision was eliminated but will be reinstated for subsequent years.

**Allowable Growth**

Budgets are annually increased by a state allowable growth which permits each district to increase its expenditures by a fixed dollar amount per pupil. The increase has been based upon changes in the Consumer Price Index and the general revenues of the state. The average of the percent of change in the two

has been used; however, for the 1980-81 budget years, the allowable growth was based upon changes in the Consumer Price Index only. Starting with the 1981-82 budget year, the allowable growth was to be based upon the average change in the gross national product implicit deflator and the revenues of the state unless the revenue change is less than the deflator change. If the revenue change is less, then the allowable growth was to be based upon the revenue change only. However, the 69th General Assembly established the allowable growth rate at five percent and seven percent for the 1981-82 and 1982-83 budget years respectively. Table 3 presents the allowable growth rate and dollar amount since 1974-75.

Table 3
Allowable Growth Rate and Total Allowable Growth 1974-75 to 1986-87

| Budget Year | Growth Rate | Amount |
|---|---|---|
| 1986-87 | 3.843% | $ 97 |
| 1985-86 | 5.325% | $ 127 |
| 1984-85 | 2.54 % | $ 59 |
| 1983-84 | 6.103% | $ 133 |
| 1982-83 | 7.0 % | $ 136 |
| 1981-82 | 5.0 % | $ 92 |
| 1980-81 | 13.592% | $ 219 |
| 1979-80 | 9.484% | $ 139 |
| 1978-79 | 9.422% | $ 127 |
| 1977-78 | 7.84 % | $ 98 |
| 1976-77 | 9.825% | $ 111 |
| 1975-76 | 10.7 % | $ 110 |
| 1974-75 | 8.0 % | $ 76 |

**Supplemental School Income Surtax**

For the 1981-82 school year, school boards could call for a special election to determine whether to impose a supplemental school income surtax on individual state income tax for the calendar year beginning January 1, 1981. The surtax amount could not exceed the difference between the five percent allowable growth and the nine and twenty-six thousandths percent growth or $75 times the budget enrollment. A simple majority was required for passage.

School boards had between April 2, 1981 and July 1, 1981 to hold an election to gain approval for the surtax. The surtax was attempted by five districts. Only one district obtained voter approval for the tax.

**Enrichment Levy**

The enrichment levy has allowed districts to increase their budgets by up to 5 percent of the state cost per pupil for the purpose of educational research curriculum maintenance or development of innovative programs. The additional enrichment amount must be approved at the local level by a majority of those voting.

The tax used for the enrichment amount is a combination of income surtax and property. The proportion of the tax is a property tax of 27 cents/$1,000 of assessed valuation for each 2.5 percent of income surtax. The maximum tax is a 5 percent income surtax and a 54 cents/$1,000 of assessed valuation.

Beginning with the 1979-80 school year, a district may increase its budget by up to 10 percent of the state cost per pupil through the enrichment levy. The combination of property tax and income surtax was changed to the proportion of a property tax of 27 cents/$1,000 of assessed valuation of taxable property in the district for each 5 percent of income surtax. The maximum tax for the enrichment amount was changed to $1.08/$1,000 of assessed valuation and an income surtax of 20 percent. Also beginning with the 1979-80 school year, the enrichment amount was no longer restricted to expenditures for educational research, curriculum maintenance, or development of innovative programs.

**Miscellaneous Income**

Miscellaneous income includes all income not included in the controlled budget. The major source of this revenue is federal funds; however, other sources of revenue also are included in miscellaneous income such as interest on securities, and supplemental income surtax.

**Unspent Balance**

The unspent balance is the difference between a district's total spending authority and its actual expenditures for a year. The unspent balance from the previous year is added to a district's budget and can be spent the following year. A district will also have a cash balance at the end of a fiscal year. The cash balance is a district's unencumbered cash on hand. For example, a district's budget (total spending authority) could be $10,000,000 in a year, but the district may only receive $9,500,000 due to delinquent taxes or state aid cuts. Thus, if the district spends all of its $10,000,000 authorization, it will end the year with a $500,000 cash deficit and no unspent balance. If the district chooses to spend only the $9,500,000 it receives, it will end the year with a $500,000 unspent balance even though it has no cash to fund it.

## SCHOOL BUDGET REVIEW COMMITTEE

The School Budget Review Committee (SBRC) was established in 1967 and included as an integral part of the current finance law adopted in 1971. The committee, consisting of the superintendent of public instruction, the state comptroller

and three appointed members, has the authority to review districts' budgets and modify a budget because of unique and unusual circumstances. For example, an unusual circumstance may be caused by enrollment changes, natural disasters, transportation or staffing needs. Chapter 442.13, Code of Iowa, enumerates 16 unique or unusual circumstances but does not limit a district from appearing before the SBRC for other unique and unusual budget circumstances.

The SBRC has also been given the authority to grant a school district additional allowable growth for gifted and talented programs, for dropout programs and educational improvement projects. However, a maximum of 75% of the dollars needed can be obtained from the additional allowable growth. The other 25% must be from the general fund. Funds for the gifted and talented program and the dropout program from other sources must be subtracted from their respective budgets prior to computing the 25%, 75% mix of dollars. No more than 3% of the enrollment may be identified as gifted for funding purposes. For school improvement projects, the budgets shall not exceed one percent of the district cost per pupil times the budget enrollment or be less than $5,000.

## AREA EDUCATION AGENCY

The Area Education Agency (AEA) does not have its own taxing authority and hence relies upon the Local Education Agency (LEA) to generate dollars for its operation. The services and the budget of an AEA can be divided into three parts: special education support services, media services and other education services.

The special education support services are supported by the foundation formula while media and other education services are completely supported by property taxes. Prior to the 1981-82 budget year, the AEA determined its budgetary needs in each of these three areas and translated these into dollar amounts per pupil. These were then used by each district to determine the amount of money to be generated by the district to "flow through" the district to the AEA.

In the 1981-82 budget year, the special education support services budget was determined by using the 1980-81 per pupil cost times the weighted enrollment. The education service budgets for 1981-82 were frozen at their 1980-81 level and the budgets for media services were increased by five percent. Since 1981-82, the special education support services cost per pupil has been based upon the prior year's cost per pupil plus an allowable growth per pupil. The budgets for special education support services is determined by multiplying the special education support services cost per pupil by the total weighted enrollment. Budgets for media and education services were determined in a similar fashion from a prior year's cost per pupil plus an allowable growth per pupil times the enrollment served.

## SOURCES OF REVENUES

The primary sources of revenues to support public elementary and secondary education in Iowa are property taxes and state aid. The state aid is derived from the general revenues of the state, primarily income and sales taxes. The percent of revenues derived from property taxes has decreased, while the state's contribution has increased considerably. In 1970-71, the state's

Table 4
Sources of the School Dollar (In Millions)

| | 1970-71 | | 1974-75 | | 1977-78 | | 1980-81 | | 1983-84* | |
|---|---|---|---|---|---|---|---|---|---|---|
| Property Taxes | $337.5 | 56.3% | $334.6 | 42.3% | $ 395.1 | 37.9% | $ 492.3 | 35.9% | $ 556.2 | 34.6% |
| State Aid | 166.4 | 27.8% | 313.3 | 39.6% | 439.6 | 42.2% | 592.8 | 43.2% | 690.3 | 43.0% |
| State Credits | 59.4 | 9.9% | 58.1 | 7.3% | 107.3 | 10.3% | 112.5 | 8.2% | 125.9 | 7.8% |
| Miscellaneous | 36.1 | 6.0% | 85.2 | 10.8% | 100.4 | 9.6% | 173.9 | 12.7% | 233.9 | 14.6% |
| | $599.5 | 100.0% | $891.2 | 100.0% | $1,042.4 | 100.0% | $1,371.5 | 100.0% | $1,606.3 | 100.0% |

Source: Office of the State Comptroller

*Estimated

direct contribution to schools was $116.4 million; by 1983-84 it had grown to $690.3 million. In addition to the direct contribution of state aid, tax credits are given such as homestead exemption and agricultural land tax credits. These credits currently result in $125.9 million in state aid being indirectly given to schools. This is indirect aid in that the state dollar is replacing the revenue lost when a credit is given. Table 4 presents the sources of the school dollar as determined from school budgets.

GENERAL AND SCHOOLHOUSE FUND

Revenues and expenditures of public school districts are either for a general purpose which is the general fund or for the school building or site which is the schoolhouse fund. The general fund is for the general day-to-day operation of the school district, while the schoolhouse fund is for specific items statutorially established. Most revenues for the schoolhouse fund are derived through five levies: playground levy, site levy, schoolhouse tax levy, lease-purchase levy, and a levy for general obligation bonds.

Major construction is usually undertaken through the use of general obligation bonds approved by the voters. A 60 percent "yes" vote is required to approve the property levy necessary to pay the principal and interest on these bonds. A school district has a maximum bonded indebtedness of 5 percent of its assessed valuation and a maximum tax rate $2.70/$1,000 or $4.05/$1,000 with voter approval.

The schoolhouse tax may not exceed $.67 1/2 per thousand dollars of assessed valuation in any one year. This money can be used for the purchase of school grounds; construction; payment of debts incurred in construction of schools or buildings, but not including interest on bonds; for acquisition of libraries; for purchase of equipment for buildings; for repair, remodeling, reconstruction, improvement or expansion of schools; for landscaping, paving or building and/or grounds improvement for rental of specific facilities. Voter approval is required to levy the tax.

The playground levy tax also requires voter approval. The tax, in any one year, may not exceed $.13 1/2 per thousand dollars of assessed valuation. The tax may be used to establish and maintain, in public school buildings and on school grounds, public recreation places and playgrounds.

The Board of Directors may initiate, each year, a site levy, not to exceed $.27 per thousand dollars of assessed valuation. The tax levied is placed in the schoolhouse fund and used for the purchase of sites and site improvements including grading, landscaping, seeding and planting, sidewalk construction, roadways, retaining walls, sewers and storm drains, etc. The levy may also be used for major building repairs including the reconstruction, improvement or remodeling of an existing schoolhouse and additions to an existing schoolhouse or expenditures for energy conservation. Legal costs relating to acquisition, surveys and relocation costs may also be paid for with revenues raised through this tax.

The rental of buildings or lease-purchase option agreements for the acquisition of buildings may be undertaken by a district with sixty percent approval of the voters. The tax for renting, leasing, or lease-purchasing buildings may not exceed $1.35 per $1,000 of valuation.